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FM AMEMBASSY BEIRUT

TO RUEHC/SECSTATE WASHDC PRIORITY 2124

INFO RUEHEE/ARAB LEAGUE COLLECTIVE

RUCNMEM/EU MEMBER STATES COLLECTIVE

RUEHNO/USMISSION USNATO 2740

RHMFISS/CDR USCENTCOM MACDILL AFB FL

RHEHNSC/NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 BEIRUT 000809

SIPDIS

STATE FOR NEA/ELA

EB/FO AND EB/IFD/ODF RDEMARCELLUS

DEPT PASS TO EU MEMBER STATES COLLECTIVE

NSC FOR ABRAMS/SINGH/YERGER/GAVITO

TREASURY FOR DAS ABAUKOL, VALVO, KMATHIASEN

USAID FOR USAID/ME JBEVER, GLAUDATO AND USAID/ME/MEA RWEBB,
DMCLOUD, ESCOTT

E.O. 12958: DECL: 05/28/2018

TAGS: CASC EINV EFIN ELAB PGOV PINR LE

SUBJECT: LEBANON: BEIRUT STOCK EXCHANGE 101: PRESIDENT
TELLS ALL

Classified By: CDA Michele Sison for reasons 1.4 (b) and (d)

SUMMARY:

¶1. (C) President of the Beirut Stock Exchange Dr. Fadi Khalaf explained that although by law investors cannot hold more than ten percent of any company's shares, secrecy laws prevent disclosure of who buys and sells. Rumors are that shares are held by front-men or institutions for unnamed investors; implications are that these unnamed investors are Saudis or members of the Hariri family. Khalaf, who serves at the will of the cabinet, is thinking of leaving, because he has "no political cover," and feels that PM Siniora is critical of his tenure. Solidere, the bellwether stock of the BSE, may be undervalued, and is attracting investors from all over. End summary.

SOLIDERE TRADING FRENZIED

¶2. (C) Recent frenzied activity on the Beirut Stock Exchange (BSE) after the successful completion of the Doha accord highlighted both the success of the BSE, and the limited options available to investors. Dr. Fadi Khalaf, President of the BSE, explained the market operation when questioned by Econstaff about the persistent rumors of Saudi and specifically Hariri family involvement in the Solidere stocks. Solidere, which is a consortium initiated by the late PM Rafiq Hariri, owns much of downtown Beirut, and also 35 percent of Solidere International, a successful development company with large projects in Jordan and the Gulf. Although not normal for a real estate operation, Solidere remains the bellwether stock on the BSE, largely due to lack of competition. Other than Solidere, and commercial bank shares, there are very few companies listed on the BSE.

NO WAY TO KNOW WHO'S BUYING, BUT RUMORS PERSIST

¶3. (C) Recently the Solidere stock price soared, up the full allowable percentage (15 percent) every day, until profit taking began to stabilize the share prices. Khalaf told us that the BSE cannot disclose the names of buyers and sellers, likening this to bank secrecy. Khalaf explained that in the absence of a regulatory body, similar to the Securities and Exchange Commission in the U.S., the BSE cannot know who the

investors are when shares are acquired by large banks or financial institutions through fiduciary accounts. Although by law no investor can hold more than ten percent of the shares of any one company, he acknowledged that there are rumors of front-men or institutions buying blocks of shares on behalf of particular individuals. (Note: Most of the rumors point to Saudi investors, and Saad Hariri. End note.)

SOLIDERE MAY BE UNDERTHEVALUED

¶4. (C) A prominent Sunni businessman, Abdel Wadoud Nsouli, close to the Hariri family, told us that the investors buying Solidere stocks include both Lebanese and foreign investors, in addition to the Saudis and the Hariri family. He pointed out that Solidere shares are undervalued, since Lebanese real estate values are below market for the region, due to the ongoing political crisis in recent years. He also says that the market has not yet fully valued the success of Solidere International.

KHALAF WORRIES ABOUT HIS FUTURE AT BSE

¶5. (C) Khalaf is generally held to be good at his job. He has worked hard to upgrade the BSE to international standards, and not without criticism. During the recent crisis he and his staff, many of whom slept at the BSE, found ways to keep the operation running remotely throughout the upheaval. His mandate ended in November 2003, but the cabinet asked him to remain in his post until a new BSE board is named. He told us he has recently received offers for

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jobs in the Gulf, and he is thinking of leaving the BSE. A large part of his decision seems to be based on his strained relationship with PM Siniora, and his fear that his options may be limited if Siniora gets rid of him. (Comment: In a story illustrative of the Byzantine nature of Lebanese government, Khalaf tells of BSE employees who report to Siniora, who then sends Khalaf letters reprimanding him for "waste of government funds." End comment.) Khalaf explained that he has a good relationship with caretaker Finance Minister Jihad Azour, who has direct oversight of the BSE, but feels that he could be removed by Siniora at any time.

COMMENT

¶6. (C) Insider trading is not an issue for Lebanese, and we are told that large sums of money are historically made by key GOL figures after political accords are reached. This was also reportedly true after Paris III. Without a regulatory body this will continue; rumors of insider trading will abound, and many of them will be accurate. End comment.

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